

ORIGINAL

CERTIFICATION

Pursuant to Article VI of the Articles of Organization of the National Petroleum Council, as amended June 11, 1980, I hereby certify that the above material constitutes a comprehensive and accurate transcript of the 90th meeting of the National Petroleum Council on Tuesday, October 15, 1985, held in the Dolley Madison Ballroom of The Madison Hotel, Fifteenth and M Streets, N.W., Washington, D.C., at which I was present. I further certify that a duplicate original copy of this transcript is to be placed in the custody of the Chairman and Government Cochairman of the National Petroleum Council.

December 4, 1985  
(DATE)

  
CHAIRMAN

Jan. 22, '86  
(DATE)

  
GOVERNMENT COCHAIRMAN

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UNITED STATES  
DEPARTMENT OF ENERGY

NATIONAL PETROLEUM COUNCIL

Tuesday, October 15, 1985

2:30 p.m.

Dolley Madison Ballroom  
The Madison Hotel  
Fifteenth and M Streets, N.W.  
Washington, D.C.

## HEAD TABLE:

RALPH E. BAILEY, Chairman  
National Petroleum Council

EDWIN L. COX, Vice Chairman  
National Petroleum Council

AMBASSADOR CLAYTON YEUTTER  
United States Trade Representative

HON. JOHN S. HERRINGTON  
Secretary of Energy

DONALD L. BAUER  
Acting Assistant Secretary  
For Fossil Energy  
United States Department of Energy

MARSHALL W. NICHOLS  
Executive Director  
National Petroleum Council

## ALSO MAKING PRESENTATIONS:

JAMES M. SEAMANS  
Chairman  
Coordinating Subcommittee  
NPC Committee on U.S. Petroleum Refining

A.V. JONES, JR.  
Chairman  
NPC Agenda Committee

JOHN R. HALL  
Chairman  
NPC Finance Committee

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P R O C E E D I N G S

CHAIRMAN BAILEY: Ladies and Gentlemen, will the 90th meeting of the National Petroleum Council come to order.

We have placed an agenda before each one of you, and as usual we have a very good turn out. And I suggest that we dispense with the roll call. If there's no objection to that, the check-in that we have made out at the door then will serve as the roll call, and if you didn't register we would ask you to do so immediately after the meeting.

I would now like to introduce the head table: to your right is Donald L. Bauer, Acting Assistant Secretary for Fossil Energy. Next to Don will be our special guest, the United States Trade Representative, Ambassador Yeutter, and the Ambassador will be along in just a few minutes. On my far right is Marshall Nichols, Executive Director of the Council. And next to Marshall is Ed Cox, Vice Chairman of the Council. On my immediate right is the Honorable John S. Herrington, and we are very pleased to have the Secretary with us here this afternoon; and our first order of business will be to hear from him.

So, ladies and gentlemen, the Honorable John S. Herrington, Secretary of Energy.

(Applause)

1 SECRETARY HERRINGTON: Thank you very much.

2 It's an honor to talk to this group again, the second  
3 time; and a few months have passed and during that time  
4 it has been my pleasure to meet a number of you personally,  
5 and talk to you on an informal basis. Tonight I will be at  
6 your reception; if you have any comments on what I say  
7 today or if you would like to talk further I hope that  
8 you will come up and make your views known. I find it  
9 is the most beneficial way that I can get your ideas in  
10 attempting to influence national policy in this  
11 Administration. I am very open to it; the same as Don  
12 is and the rest of the people that work in the Energy  
13 Department today.

14 I had some prepared remarks that I was going  
15 to say today but I've had an interesting volume of inquiries  
16 from a number of you personally on the synthetic fuels  
17 situation. And in the short time that I have here, I  
18 think I'd like to discuss it a little bit; and we have  
19 a very interesting speaker, Clayton Yeutter is the U.S.  
20 Trade Representative, a very bright guy and I think you'll  
21 enjoy hearing from him.

22 But I want to talk first about synthetic fuels,  
23 and perhaps explain what the Department of Energy is doing  
24 in this issue and why we're here.

25 And I want to talk to you as businessmen and

1 businesswomen. I want to put aside this hat and I want  
2 to talk to you as taxpayers. Maybe you can understand  
3 where we're coming from a little better on this particular  
4 issue.

5 Back in the early '70's this synthetic fuels  
6 program was about an \$88 billion program that was put out,  
7 and it gradually has worked its way down until 1983 projects  
8 were voted to go ahead. You all know them; one was TOSCO,  
9 one was the Great Plains Coal Gasification, and one was  
10 Parachute Creek in Colorado. And as time passed the TOSCO  
11 project went by the wayside, it did not cost the government  
12 any money. Some of the people involved realized that it was  
13 not as quite as profitable as it looked like it might be.

14 We then had the Great Plains Coal Gasification  
15 situation that came back to the government here last May;  
16 a \$1.5 billion loan that the Department of Energy guaranteed  
17 for the construction. Basically, the problem with Great  
18 Plains, and a number of you have read about, it was  
19 built around \$2 billion, it was a wonderful plant. It  
20 was well done, it produced everything we said it would.  
21 It was operated beautifully. The only problems is, the  
22 price of the gas that came out of that was hooked into  
23 number two fuel oil, and it was coming out at about \$10.00  
24 in a market of about \$2.50, a spot market about \$1.80.  
25 And the partners came back to the government and asked

1 for \$720 million in price supports for the product. We  
2 calculated those price supports would last a very short  
3 time and that the marginal benefit to the taxpayer was  
4 not good.

5 That brings us to the third project. Tomorrow  
6 the Synthetic Fuels Board of Directors is going to meet  
7 and one of the items on their agenda is, they're going  
8 to want to give \$500 million to Union Oil Company for  
9 the Parachute Creek project.

10 Back in 1980 you might have remembered that  
11 the vote was for \$400 million for Parachute Creek based  
12 on incentives; they were going to be price guarantees.  
13 If they got the production in mid '86 of a certain level,  
14 then they were going to draw down these \$400 million  
15 in price supports. Well, they didn't make it. And they're  
16 back now wanting \$500 million in price supports and loan  
17 guarantees.

18 The best information that we have turned up  
19 at the Department of Energy from experts on shale oil  
20 and around the country are that, the above-ground retort  
21 process has serious problems. The technology has  
22 not been proven. There are problems of shale fracturing.  
23 It's almost as hard to get the shale out of the oil as  
24 it is to get the oil out of the shale.

25 There are a number of other projects; a



1 fluidize bed has never been hooked into this type of thing  
2 at the temperatures they're talking about. One was run  
3 by Chevron for awhile, for 20 days I think, at about  
4 250 tons. We're now looking at putting 12,000 tons up  
5 in the air against gravity with the problems they have;  
6 we have a waste problem, et cetera, et cetera. There  
7 are some serious problems with this technology.

8 We have taken the position publicly that the  
9 \$500 million investment in Parachute Creek is not a good  
10 investment for these reasons:

11 (1) It will allow them to move forward into  
12 production to the point they can draw down the other \$400  
13 million. Therefore, the decision tomorrow is a \$900 million  
14 decision for synthetic fuels. What do you get for that?  
15 You get oil subsidized at between \$71.00 and \$75.00 a barrel.

16 How long will that production last? We estimate  
17 at the maximum six years.

18 The question I put to you as businessmen: do  
19 we have \$900 million today in these days of deficits to put  
20 into an oil shale project that will subsidize it around  
21 \$75.00, and produce an insignificant amount of shale oil?

22 The argument is being made that we need this  
23 plant for national security. The Department of Energy  
24 has looked at this carefully and said, "All right, suppose  
25 it works and suppose we put it on the shelf and keep

1 it for a day of crisis." And suppose there is a crisis;  
2 what do we do at that point? Do we pull it off the shelf  
3 and do we start operating it? And if we do it, how much  
4 oil can it put into the system and at what cost? How  
5 many more plants do we have to build? Where do we bulid  
6 them? And I guess, how long does it take to build each  
7 plant, is the critical question.

8 The answers are that these plants could cost  
9 up to a billion dollars a piece. They could take between  
10 four and five years to build. They all have to go out  
11 in the oil shale area where there is extreme environmental  
12 concern that we would have to fight, and they all put  
13 in a marginal amount of oil into our system.

14 And does that in fact cure the problem of the  
15 crisis? The answer we have come up with is, no.

16 I guess I want to make this point to you; the  
17 position the Department of Energy is pushing is a business  
18 decision. It is best use of taxpayers' money in an economy  
19 where we have deficits that are estimated to be \$200 billion  
20 for several more years.

21 When I walked in the gates of the White House  
22 in 1980, working for Ronald Reagan for 16 years, national  
23 debt was about a trillion dollars. I thought that was  
24 pretty big at that time. This week we are going to see  
25 a vote to send the national debt through \$2.3 trillion.

1 That's a lot of money we're talking about. We need to  
2 get at it. We need to get at that problem more than we  
3 need to get at oil shale. We must solve this deficit  
4 problem.

5 And this is one of the ways I think we can do  
6 it; a billion dollar cut in a technology that does not  
7 seem cost effective is one way we can start getting at  
8 this. So, you will read and you will hear that the Department  
9 of Energy is opposing the Synthetic Fuels Corporation.  
10 What we are opposing are the individual projects that  
11 they are going after at this time.

12 I think the future of the Synthetic Fuels  
13 Corporation itself is a matter for Congress. And I am  
14 not saying anything more than that I have serious reservations  
15 about the continuation of this program.

16 But the individual projects that they are starting  
17 to fund cause me some concern.

18 I think that Ed Noble has done a good job as  
19 Chairman, and I congratulate him for it, but it is perhaps  
20 a technology for another time.

21 Two weeks ago a project went out as an example,  
22 this was in Texas, many of you know this. This was a  
23 heavy oil project. I don't know if any of you saw the  
24 article that came out in Energy Daily on October 7th,  
25 \$60 million was the amount of the award; it was called

1 Forest Hills. There's another project coming up tomorrow  
2 called Sea Bridge; and there's about 40 more on the drawing  
3 boards behind it that amounts to several billion dollars.

4 But this one went out on, on actually the 24th  
5 of September, over the objection of a lot of people. And  
6 here is what the article says, it is very short: "A  
7 Texas heavy oil producer claims that the Synthetic Fuels  
8 Corporation's recent \$60 million award to Greenwich Oil  
9 Corporation is quote, absurd. Noble and Cantrell Exploration  
10 Company owns leases next to Greenwich and says it's  
11 making a profit extracting oil by conventional methods.

12 "'There is absolutely no reason in my opinion that the  
13 U.S. taxpayers should pay for this project,' John Cantrell,  
14 company president, said in a September 23rd letter to Noble.

15 "I believe that to ask the taxpayers to pick  
16 up the tab on this project is absurd. Greenwich Oil, which  
17 uses an oxygen fire floor technology, will receive SFC  
18 price guarantees for up to \$40.00 a barrel. Granted, Greenwich  
19 will use a, quote, secondary technology to extract the oil from  
20 its Harris Counties reservoirs,' Cantrell told Energy Daily,  
21 'but there is nothing exotic to it; it just cost more money.'

22 "'Cantrell's firm is extracting oil even deeper  
23 than Greewich,' he siad. 'For the government to subsidize  
24 them at \$40.00 a barrel, I just couldn't believe it,' said  
25 Cantrell. His heavy oil fetches just \$17.00 to \$20.00 a

1 barrel for his 500 barrels a day of production. 'It's still  
2 profitable here. We're still making a living. We're  
3 still drilling new wells, 'he said. 'I never dreamed  
4 Greenwich could pull it off. I guess the SynFuels  
5 Corporation just needed something to do.'"

6 That's a short article, but it is the guts of  
7 the synthetic fuels program. They are sitting on over  
8 \$7 billion of appropriated money that they want to hand  
9 out today.

10 I submit to you that perhaps this money could  
11 be better used in other technologies, maybe in the same  
12 industry, in secondary recovery, and some other areas on  
13 a more cost effective basis.

14 I do not want my remarks on SynFuels Corporation  
15 to be taken to you as the wrong way. I am very concerned  
16 today, and I want you to hear this loud and clear, about  
17 the condition of the oil and natural gas industry in this  
18 country. I'm concerned about it. Its viability. What  
19 has happened?

20 And when you hear me talk about a project like  
21 this, I'm talking about wise expense of taxpayers' money.

22 I feel that I have to comment when the price  
23 of OPEC oil drops. But I want you to know that I also  
24 understand that when that happens, it also affects domestic  
25 production. And that we have a serious problem in this

1 country that we need to solve. We have to walk a balancing  
2 act here between deficits; between the oil import fee,  
3 that I think all of you had heard about back in the  
4 beginning of the summer. I think maybe there's pros and  
5 cons in this audience.

6 When we took a position against the oil import  
7 fee, I felt the President was entirely correct in that  
8 decision. Coming from where I do at the Energy Department,  
9 all I could see was a rebuilding of the ERA, which a number  
10 of you went through. That allocation of what happens  
11 in various parts of the government when you try to put  
12 a blanket rule and regulation over. For instance, there's  
13 more fuel oil used in Northeast. More gasoline used in  
14 California. Old people and elderly citizens should have  
15 more credits to do their fuel oil.

16 A bureaucracy in the Department of Energy of  
17 that size rising up, in answer to the oil import fee,  
18 I think would have been the wrong signal in this environment.  
19 Although, I know this was a close call and none of you,  
20 a lot of you supported the import fee.

21 Maybe Clay would probably like to address some  
22 of that, part of it.

23 I think what I want to say is, the Department  
24 is very much aware of the problems in your industry. We  
25 want to help. We're looking for ways to help; and we

1 want you to know that. When things happen in your industry,  
2 we pay attention. You have a critical industry to this  
3 country. One that we need to preserve and keep healthy.  
4 And although, sometimes some of these policies appear  
5 to look like we are not supportive, for instance, in the  
6 synthetic fuels, there are specific reasons.

7 I think the best way that we can help this industry  
8 today from the Energy Department is in a wise and sound  
9 tax policy. It looks to me like the best way that we  
10 can help you. And we intend to be outspoken, and do what  
11 we can to make sure that any tax legislation keeps the  
12 options of this industry and its exploration wide open.

13 I've probably taken too much time. I would  
14 at this point, I'll be there tonight if any of you would  
15 like to talk to me. I know that's a lot of serious things  
16 real fast.

17 I'd like to take this opportunity to introduce  
18 the United States Trade Representative who is, I think  
19 since the time I've been in the Cabinet one of the most  
20 impressive men I've met, this is Clayton Yeutter. He  
21 is President -- in 1978 he was President and Chief Executive  
22 Officer of the Chicago Mercantile Exchange. Before that  
23 he was a senior partner in a law firm of Nelson, Harding,  
24 Yeutter and Leonard in Lincoln, Nebraska. He has been  
25 Deputy Special Trade Representative in the '70's. He

1 served in the Department of Agriculture as Assistant  
2 Secretary for International Affairs and Commodity Programs.  
3 He's been Assistant Secretary for Marketing and Consumer  
4 Services in the Department of Ag. He's been administrator  
5 of several other programs. He's also been Director of  
6 the University of Nebraska, a mission in Columbia in the  
7 early '60's, and Executive to the Governor of Nebraska.  
8 He's been a faculty member in a number of leading  
9 institutions. And like a number of you, he's operated  
10 a 2500-acre farming, ranching cattle operation in Nebraska.

11 He has some very good credentials. He's worked  
12 hard in the trade area. And in Cabinet meetings I've  
13 found him outspoken, fiscally sound, with good advice  
14 for the Administration and the President.

15 So, I'd like at this time to introduce  
16 Ambassador Yeutter. Clay.

17 (Applause)

18 AMBASSADOR YEUTTER: Thanks, John. It is nice to  
19 join you here today; and I see some old friends out in  
20 the audience and it is good to have a chance to renew  
21 some of those acquaintances, too. You've got a pretty  
22 high powered group here, John, I must say. I don't know  
23 how you put all that horse power in one room at one time.  
24 That's excellent. Nobody is running the store in the  
25 energy business today.



1 Well, we have a huge private sector advisory  
2 process in U.S. T.R. Also, I will add that, parenthetically,  
3 some of you might possibly even be on some of those  
4 advisory committees. I really haven't had a chance to  
5 even review the entire membership thus far, because <sup>WE'VE</sup> ~~we're~~  
6 got about 50 of them. John, I think as you'll remember  
7 from your days in the White House Personnel Office with,  
8 you know, one at the Presidential level and then several  
9 industry groups below that and then a lot of what I would  
10 call sectoral groups down below that yet, too. And that  
11 provides us an enormous amount of input in the trade  
12 process extremely valuable.

13 And I bring all this up simply to say to you  
14 that I think that's a tremendously important part of  
15 the process of governing this country. And I wish more  
16 of the department of government had that kind of system.  
17 Maybe not quite that extensive because that's a lot of  
18 meetings. But it's important nonetheless. We've got  
19 around 50 committees with about 1,000 private-sector people  
20 involved in the process, and we work them pretty hard.  
21 So, it's very useful indeed.

22 Well, let's get back to the trade scene now.  
23 I'd just like to talk about a few issues that I think  
24 might be of general interest to all of you; and then we'll  
25 go to some questions. I'll try not to get too specific;

1 you all are the experts. And so, if I get too specific in  
2 your arena, I'm going to get way over my head very, very  
3 quickly.

4 But I'd like to give you the big picture as  
5 best I can because certainly a lot has been happening  
6 on the trade front; you're going to be affected  
7 peripherally, indirectly at least, if not directly. And  
8 we've got some issues that are not yet resolved and that  
9 we're going to have to deal with in the relatively near  
10 future in which you clearly have an interest. So, let me  
11 kind of ramble through some of that over a few minutes,  
12 and then, John, if we have time I'll take some questions  
13 here. Shut me off, John or Ralph, whenever you wish,  
14 because I don't want to run overtime here.

15 Trade -- let me start off simply by saying that  
16 trade has gotten to be a pretty high profile. It's not  
17 on the back burner anymore, if it ever was. It has occurred  
18 pretty clearly on the front burner right now. And I  
19 suspect it's going to stay there for quite awhile. I  
20 look for it to be there all through 1986; maybe well beyond  
21 that, simply because we can't turn the situation around  
22 overnight. I wish we could go from a \$150 billion trade  
23 deficit or close to that on down to zero by 1986, but  
24 unfortunately, that's not in the cards. That's not going  
25 to happen, no matter what anybody in government does or

1 does not do or no matter what anybody in the private sector  
2 does assuming that there are rational and sane decisions  
3 being made out there. You just don't alter those numbers  
4 that quickly.

5 One reason for that is simply there is a lag  
6 time in anything that we do. What we do in the way of  
7 macro-economic policy, for example, right now, which is  
8 going to be a big part of confronting a trade deficit,  
9 really isn't going to have any effect for 6 to 12 months  
10 probably. Many of you are in the international business,  
11 and you know that people don't change orders overnight.  
12 You don't adjust suppliers or distributors or any other  
13 part of your chain immediately as economic conditions  
14 change; it takes a while for all that to work through  
15 the system.

16 And typically, I think most economists would  
17 say it takes at least 6 or 12 months for major macro-  
18 economic policy decisions and fiscal policy or monetary  
19 policy to work its way through the system. The same thing  
20 applies to probably the major trade policy items.

21 So, it's going to be a while till we turn this  
22 ship around. But I really believe we're coming  
23 around the curve; it's going in the right direction now.  
24 And that's due to the work of a lot of people. I certainly  
25 don't take personal credit for that. Everything we've

1 done on trade in the last several months has been an  
2 interagency process, as John knows; John sat in on a good  
3 many of those meetings. The President, himself, has been  
4 personally involved, and he's given his usual outstanding  
5 leadership in this area. He really has an excellent  
6 understanding and grasp of the critical issues in trade,  
7 just as he does the overall basic economic issues. That  
8 sense of direction is sound; and I think he'll always  
9 have that sense of perspective and sense of direction  
10 that's really very encouraging to all of us who work with  
11 him.

12 What we have tried to do in the last few months is  
13 be more aggressive as a country. We've felt that was  
14 a signal that we just had to send around the world. We  
15 were not very aggressive as a nation in the '70's. In  
16 fact, by and large, on trade issues we really haven't been  
17 terribly aggressive since the conclusion of World War  
18 II. Part of that was, of course, the Marshall Plan itself,  
19 and the mentality that arose from that. We were trying  
20 to help other nations in the world pick themselves up by  
21 their boot straps, and dig out from under a war.

22 And all of that was a good thing for us to do;  
23 it was in our own self interest as well as a great  
24 humanitarian gesture.

25 And then during the '70's, of course, it also,

1 it was also a time in which we could be magnanimous because  
2 things were going well internationally. We had a weak  
3 dollar, and a lot of other economic factors that really  
4 stimulated exports. Our international trade picture was  
5 going beautifully. We had a big positive of balance of  
6 trade and all of this.

7 So, again, we could turn the other cheek and  
8 not worry too much about it. And then comes along the  
9 '80's and the economic environment almost flips 180 degrees;  
10 it's a different world out there. And that simply meant  
11 that we couldn't follow the same modus operandi. And  
12 as you can tell from what's happening in the last several  
13 months, we have gotten a whole lot more aggressive,  
14 particularly with respect to unfair trade practices of  
15 other nations.

16 And I bring that to your attention, even though  
17 that may not be the biggest part of this total picture.  
18 I'm not suggesting that it is. The exchange rate  
19 relationships and the bigger factors of the fiscal deficit,  
20 monetary policy are more relevant in than the overall picture.

21 But we've got to do everything simultaneously.  
22 We can't ignore any pieces of this pie; and one of them  
23 is unfair trade practices and we need to go after those  
24 in the environment in which we find ourselves in the 1980's.

25 So, I'm saying this to you, because you're part

1 of this advisory process, and certainly one of our needs  
2 is to identify in your industry, as well as every other  
3 industry, unfair trade practices that are plaguing you.

4 Whether those be practices that other nations are following  
5 in terms of penetrating the American market, subsidies  
6 or dumping practices, or what not or whether they be  
7 practices that are taking away your third-country markets,  
8 whatever it may be, we ought to identify those practices  
9 and then move aggressively against them. That's what  
10 we're here for.

11 So, please funnel that in to John or to me or  
12 to whomever through our whole process so that we can do  
13 that.

14 We have a major effort under way now to identify  
15 trade practices that are troubling to the United States  
16 and to respond to those. And that's going to be an ongoing  
17 effort. A lot of what is moving through the system now  
18 would involve practices that may have been identified  
19 a year or two years ago. And that process needs to be  
20 continually updated. So, I solicit your help in that  
21 respect.

22 I would add to that the same question with respect  
23 to potential legislation. As you well know there are  
24 hundreds of protectionist bills on Capitol Hill right  
25 now, none of which are very attractive to us within the

1 administration; and they ought not be very attractive  
2 to the American public either, including people like  
3 yourselves. That's just not the right answer for any  
4 of the trade pressures that exist. We ought to know better  
5 than that and we ought to do better than that.

6 We've got to think in terms of what's in the  
7 long-term best interest of this nation; what's in the  
8 long-term best interest of your industry and all other  
9 industries, and locking the gates around the United States  
10 just doesn't fit that mold in my judgment. So, we have  
11 to have a better answer; and a better answer legislatively  
12 is to do some things that make good sense.

13 We do have some needs legislatively in the trade  
14 arena where we can be more effective in dealing with  
15 subsidy programs, countervailing duties, and a whole lot  
16 of other things. And if you get specific legislative  
17 suggestions, we'd like to hear them. I think the Congress  
18 would like to hear them and we ought to try to get those  
19 kinds of things enacted in the law instead of the market  
20 closing measures that characterize almost everything that's  
21 on Capitol Hill right now. So, I solicit your help in  
22 that arena as well.

23 And then, taking a little bit longer-term look  
24 at this picture, and this I think can also get close to  
25 home as far as you're concerned; we've got to look for

1 ways to open up markets around the world over the next  
2 5, 10, 20, 30 years. That really has to be done through  
3 the GATT, the General Agreement of Tariffs and Trade, in  
4 a new negotiating round. As you probably know we had a  
5 GATT round in the '70's that was called the Tokyo Round;  
6 and certainly that made some progress in a whole host  
7 of trade areas, but not as much as we needed to have,  
8 and I think there are a lot of reasons why we need to  
9 get another GATT round going relatively soon. The United  
10 States has been pushing for that. We're going to continue  
11 to push for it. My judgment is that we're going to succeed  
12 in that endeavor and we should be able to have a new GATT  
13 round get under way sometime next year.

14 And if we have the proper content in that round  
15 it can be helpful to all of us as we try to stimulate  
16 and expand international trade, including your industry,  
17 too.

18 And, let me mention just a few areas that I  
19 think might be of particular interest to you under the  
20 GATT; that is, for any of you who are interested in the  
21 international side of the petroleum business.

22 One would be the question of how investments  
23 are handled around the world; I'm talking about foreign  
24 investment rules now. Many of the companies represented  
25 in this room, I'm sure, have investments in a lot of



1 countries around the world. Those rules are by and large  
2 pretty inadequate today. We've been patching that situation,  
3 bandaiding it to some degree, through bilateral investment  
4 treaties and my associates at U.S. T.R. have done a darn  
5 good job of that over the last few years. But we need  
6 to go beyond the bilateral dimension into a multi-lateral  
7 dimension in my judgment. And I would like to see that  
8 encompassed in a new round.

9       It seems to me that if we can improve the  
10 investment climate out there in the way investment --  
11 foreign investment is handled, whether it be American  
12 investment or anybody else's investment, will stimulate  
13 economic activity throughout the world; and that will  
14 inevitably rebound to the benefit of all of us. So, that's  
15 one element of the picture.

16       The second element would be the intellectual  
17 property arena. You all engage in a lot of research and  
18 development activity. Maybe you don't use patents on  
19 a lot of things, but certainly there are patented processes  
20 in your industry that are very significant. And I must  
21 say that the amount of protection that exists in not  
22 only patents but copyrights and trademarks around the  
23 world today is grossly inadequate at best. We really  
24 need to work on that issue multi-laterally and do it soon.

25       This was not even an issue that came before

1 us when I was in government only nine years ago. It  
2 has exploded as an issue in the last several years because  
3 of all the international piracy that's going on.

4 How can companies like your's afford to engage  
5 in massive research and development efforts if your work  
6 product is stolen almost immediately after it is launched  
7 anywhere in the world? Somehow we've got to get a handle  
8 on that. And that ought to be encompassed in the new  
9 round of negotiations as well.

10 And then we can go on to all of these so-called  
11 non-tariff major codes, some of which affect you; standards  
12 being one, government procurement practices being another.  
13 A whole host of those codes were negotiated in the mid-'70's,  
14 but they were really just the first cut. They're better  
15 than nothing without question. They were a good first  
16 attempt. But we need to go much beyond where they took  
17 us in the 1970's in terms of coverage of the code, and  
18 in terms of the sophistication of and degree of implementation.  
19 In other words, they've got to be something other than  
20 just paper. You've got to make them work. And certainly,  
21 that's going to take some additional effort, and a  
22 substantial amount of additional negotiating in a new  
23 GATT round.

24 Beyond that the whole services area is one that the  
25 United States has been pushing, and that gets important

1 to you, not necessarily in your basic operations, but  
2 you use transportation,, as an example, in a very major way.  
3 And the rules of the game in international trade and services,  
4 whether it be transportation or banking or insurance or  
5 data processing, and one can go on and on, are essentially  
6 non-existent.

7 And it seems to me if we're going to operate  
8 in a sophisticated world, in a high-tech world as all  
9 of us are going to do, it's imperative to get rules of  
10 the road established in that arena. That has to be a  
11 high-priority negotiating objective for all the major  
12 trading nations of the world including the United States.  
13 It is, and we're pressing that issue very hard as we begin  
14 to develop the agenda for a new round.

15 So, that's the longer term look. And I could  
16 add to that to some degree, but that's certainly a  
17 significant part of the total picture.

18 Now, let me just go on to one or two narrower  
19 issues that might zero in a bit on your industry and then  
20 we'll go to some questions.

21 The one is what I would call the dual pricing  
22 issue; some call it the natural resources issue. This  
23 is the Gibbons Bill, if you will. It has been around  
24 for a year or two. But it may even go beyond that.

25 The whole question of how one handles sales

1 of a particular product within a given country at a lower  
2 price, when it becomes an input into an upgraded product  
3 or a value-added product, then when it's simply sold on  
4 the world market. The example that's usually given in  
5 your area is crude oil going into refining at a price  
6 way below the world market for crude. And refined products  
7 then coming into the United States or in other countries  
8 at a price per barrel that may actually be lower than  
9 the price of the crude that's moving on the world market.  
10 Well, that obviously creates difficulties for anybody  
11 in the United States or elsewhere who is in the refining  
12 business; and it certainly is one sure way to develop  
13 a refining business in the countries that engage in those  
14 sorts of practices. But it goes much beyond your industry.

15 I had the Florida cement people in the other  
16 day; they were complaining of the same thing with respect  
17 to products, cement, manufactured in Mexico and elsewhere  
18 because of the input into the cement. It's coming to  
19 a head very quickly now in lumber, because of the way  
20 some countries including Canada handle the stumpage  
21 calculations of their lumber that is cut and moved on  
22 to mills. There are just a whole host of areas in which  
23 we're running into this question of how natural resources,  
24 if we can call them those, are being priced. A very  
25 difficult problem. And one that, for which the GATT rules

1 and even our present trade laws may well be inadequate,  
2 particularly the former.

3 We have considerable flexibility in dealing  
4 with those kinds of questions that are <sup>in</sup> U.S. trade law.  
5 But the GATT rules are very dubious at best in terms of  
6 their potential for handling those kinds of questions.  
7 They'll probably have to be covered in the next rounds  
8 of GATT negotiations, too. But it may be that we can't  
9 wait for those answers in terms of some of the issues  
10 that are developing here and in other countries around  
11 the world today. So, we need some creative thinking in  
12 that area.

13 I can tell you that I'm not at all sure what  
14 the correct answer is for dealing with that question,  
15 because there are lots of arguments that can be made on  
16 two or three or four sides of those issues. It's not  
17 a simple matter to deal with at all.

18 And clearly what we do in one area will have  
19 an impact elsewhere. In other words, if we go out and  
20 solve the lumber problem because there's such a concern  
21 about that right now, we have to be concerned about what  
22 it's going to do to oil refiners in terms of the precedent  
23 that's set.

24 So, we have to try to think this through in  
25 a very careful way, so that what we develop in the way

1 of policy in this area makes good sense and is something  
2 that can properly be used as a precedent in other areas.

3 So, we need some help in that area, too. If  
4 you all have specific suggestions or recommendations,  
5 we certainly would like to hear them.

6 Now, I would just close by saying that I hope  
7 you all maintain a very strong interest in trade issues.  
8 We're going to be confronting a myriad of these in the  
9 next couple of years. We've got major negotiations going  
10 on right now with a whole host of countries on a whole  
11 host of issues. Trade has become very complex. It's  
12 big business worldwide. Hopefully, it will become even  
13 bigger business rather than smaller; we don't want to  
14 shrink the pie, we want to expand the pie. It's very  
15 intricate, very complex, and more contentious than it  
16 has been in the past. To some degree that's because of  
17 some of the actions we've been taking lately by becoming  
18 more aggressive. But inevitably becomes more contentious  
19 as the world becomes more complicated. We've got to work  
20 through all of that. We want to do it in good faith.  
21 And we want to have a sound approach. We want to be on  
22 top of this and confront the issues as they come along  
23 and try to do the right thing.

24 For those of you who have been stymied because  
25 of the, what many of us believe to be an inordinately

1 strong dollar in recent years, I hope we'll have some  
2 answers to that, too.

3 If you're an exporter, of course, it has been  
4 difficult. If you're in what I would call the commodity  
5 business, that is you're selling a product that has to  
6 be price competitively and where you cannot really brand  
7 differentiate or differentiate on the basis of quality  
8 service or something of that nature, it has been tough  
9 being an exporter in those terms in recent years.

10 If you're in an import-sensitive industry, the  
11 same thing applies. And that's why we see some of the  
12 300 protectionist bills on Capitol Hill today. The dollar  
13 relationship has been very troublesome to many people  
14 out in the private sector. We've got to confront that.  
15 And I believe we're in the process of doing that now.

16 I've witnessed some of the things that have  
17 happened in recent weeks, including the Gramm-Rudman Bill  
18 that has emerged on Capitol Hill recently. Some of you  
19 know, this is the one, of course, that would bring the  
20 deficit down to zero by 1991 or 1992. It passed the Senate  
21 a few days ago and is now on the House side.

22 I said to some people that probably will  
23 do, if it is successfully implemented, and I would hope  
24 it would be. I happen to be a very strong proponent of  
25 that concept. If it is successfully implemented, it will

1 probably do more to help those of us in the business of  
2 international trade than anything that has come along  
3 in years. In other words, if there's anything that's going  
4 to help bring that \$150 billion trade deficit down in a  
5 substantial way, it will be that kind of legislation.  
6 Because if it deals effectively with the federal budget  
7 deficit problem, it will also deal effectively with the  
8 trade deficit problem.

9 Well, John, I think that's plenty of background  
10 in trade; maybe more than your audience wanted to hear.

11 Let's see if they'd like to toss some questions.  
12 Gee, don't be bashful. Yes, sir.

13 QUESTION FROM JOHN HALL: Do you believe that the  
14 dollar can really be brought down very much more or do you  
15 think, perhaps, that the total pool of money is so big  
16 compared to what little government can work with that it  
17 might be difficult to bring it down?

18 AMBASSADOR YEUTTER: Well, the basic economic  
19 fundamentals are going to have to move in such a way as to  
20 bring the dollar down; if we want it to come down  
21 appreciably. In other words, it can't be done through  
22 intervention. Intervention can help on a short-term basis;  
23 that certainly was evident by the results on Monday morning  
24 after the Plaza Hotel meeting in New York. And in fact, that  
25 little jolt has remained. Basically, that was a benefit



1 to all of us.

2 But economic fundamentals will ultimately win out  
3 as your question implies; it's a gigantic world out there  
4 and central banks and finance ministers cannot control that  
5 process unless the fundamentals move in the right direction.

6 So, what that does mean is that we've got to  
7 have -- got to do the right things in terms of fiscal  
8 monetary policy, not only in the United States but in our  
9 trading partners. And as you know we've been putting some  
10 pressure on the Europeans to stimulate some economic  
11 growth there, the Japanese to do something in domestic  
12 economic growth.

13 We've been talking about the debt burden of  
14 the LDC's and how to lighten that load so they can get  
15 involved in international trade.

16 So, those basic fundamentals have to be moving  
17 in the right direction to get a long-term response.

18 But I think we're now -- they're now beginning  
19 to move that way. Secretary Baker did a fine job, both  
20 in Seoul and in his meetings with the G-5 in New York.  
21 He's got his fellow finance ministers thinking about  
22 this. I really believe we're going to see some policy  
23 commitments in some of these major trading partners that  
24 are going to move things in the right direction. And  
25 we need some help on their part to lift their currencies

1 as well as any help on our part that will -- not pull the  
2 dollar down, but will have, set forth a series of events  
3 the result of which will probably be the decline of the value  
4 of the dollar. That is, a reduction of the federal deficit,  
5 some accommodation of monetary policy which would bring  
6 interest rates down. And the combination of the two in the  
7 long pull, really ought to bring the dollar down.

8 And then if we can get some lifting done by our  
9 trading partners, the combination of the two should help.  
10 And we really have to have that happen.

11 Yes, sir.

12 QUESTION FROM C.M. McLEAN: Mr. Ambassador and  
13 Mr. Secretary --

14 AMBASSADOR YEUTTER: Whatever.

15 C.M. McLEAN: -- I'll even say a deep dark secret,  
16 our industry is sick due to a variety of reasons, not the  
17 least which is the spector of so-called tax reform hanging  
18 over our heads daily. And I'd like to have your assessment  
19 of what we can expect -- is this even going to get on the  
20 agenda for '85? If not, in '86? If so, are we going to  
21 be able to maintain our IDC's or is there any hope that we  
22 can get our percentage depletion back?

23 AMBASSADOR YEUTTER: John, do you want to comment?  
24 I give John the hard ones, I take the easy ones.

25 SECRETARY: HERRINGTON: I think where the tax bill

1 is -- is a very uncertain place right now. As you know the  
2 Rostenkowski Bill is out in some aspects. We've analyzed  
3 parts of it. There are some pretty delicate negotiations  
4 going on. The Administration obviously is strongly in favor  
5 of retention of the IDC's. And I think you're using a  
6 crystal ball. I've watched Bill Crowe, the new head of  
7 Joint Chiefs of Staff, the other day when he had a question  
8 like that, what's going to happen to the world. He said  
9 that predicting is a very hazardous business, especially  
10 when you're dealing with the future.

11 It's not a sufficient answer, but I think it  
12 says a lot.

13 I honestly don't know, and I don't think anyone  
14 does at this point. I read this morning that it will not  
15 come on this year. A couple weeks ago I read that it will  
16 be on this year.

17 I want to emphasize that the Secretary of the  
18 Treasury and myself and a vast majority of the Administration  
19 knows the importance of a strong domestic oil and gas  
20 industry. And the importance of those IDC's. We also know  
21 there's a lot of negotiation going on on the Hill. And  
22 I frankly won't comment on the Rostenkowski Bill today  
23 because I think it's pretty sensitive, and it would not be  
24 beneficial for me to do it.

25 SECRETARY HERRINGTON: Yes.

1 QUESTION FROM WELDON SMITH: Where does the  
2 President stand now on completion?

3 SECRETARY HERRINGTON: Well, I think the  
4 President's bill was pretty clear, the one we sent to the  
5 Hill, that was his position. And I don't think there's  
6 been -- there's been no movement on that as far as I'm --

7 WELDON SMITH: Well, I know what he said, but  
8 that was some months ago. I just wanted to know where he  
9 stands now.

10 SECRETARY HERRINGTON: Still the same. Still the  
11 same. We are quite concerned about stripper wells. There  
12 are some suggestions on the Hill that we don't need  
13 stripper wells, the way they're approaching it; and I  
14 think that's a terrible mistake and we are pushing hard  
15 on that.

16 Yes?

17 QUESTION FROM ERNEST WILLIAMSON: Given the method  
18 of the Administration, which we understand to believe for a  
19 viable domestic industry, this short-term oversupply of  
20 energy around the world, it may not last forever. Are there,  
21 in the trade area -- are there things other than an import  
22 fee that represent options that are mainly considered to  
23 (inaudible) that might attempt to maintain or restore the  
24 health of the industry?

25 AMBASSADOR YEUTTER: The question was, since this

1 present surplus situation, energy might not last forever,  
2 is there anything that we're considering in the trade  
3 field other than an import fee that might be helpful in,  
4 I assume, continuing to stimulate drilling activity or at  
5 least prepare us for production down the road or whatever.  
6 Is that the essence of your question?

7 Well, I'll tell you frankly, we haven't -- we've  
8 been so busy since looking at the overall picture since  
9 I've been here, which is only a little over three months,  
10 we haven't really zeroed in on that issue in any of the  
11 discussions that I've yet been involved in. But I  
12 certainly am sensitive to the issue you raise; and I don't  
13 have any brilliant ideas off the top of my head. But I'm  
14 certainly willing to listen to any thoughts you all might  
15 have on that subject. It does seem to me that we have a  
16 tendency in the United States to really be short term in  
17 our approaches to most things.

18 (Continued on next page.)  
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1           AMBASSADOR YEUTTER: We're a very crisis-oriented  
2 society, as you know, and if it's not a crisis, we don't do  
3 much. And I've often said in speeches, we're also a one-  
4 issue society. We can only handle one crisis at a time. If  
5 we have two, we're really in trouble.

6           But there is a lot to be said for forward thinking  
7 and anticipatory thinking, so I'm certainly amenable to  
8 focusing on that to some degree. But there really hasn't  
9 been much discussion thus far. John may want to add to this.

10          SECRETARY HERRINGTON: Clay, let me add one --  
11 one thing. We went to the International Energy Meeting in  
12 Paris in May, and this product import issue is coming down  
13 the line -- and Clay is going to have to deal with it. We're  
14 all going to have to deal with it.

15          One of the things we can do is press for open  
16 markets worldwide on petroleum products. The Japanese at  
17 this point, as you know, are taking no gasoline, no kerosene,  
18 no light products. And it was -- the European Community is  
19 talking about, oh, maybe we'll take five percent, ten percent  
20 of any new Middle Eastern capacity coming on. Where does  
21 that leave the rest of the world's market? It's right here.  
22 That's a problem, and you all know it. And that's the one  
23 we have to deal with.

24          At that meeting, very frankly, we had difficulty  
25 getting language in the communique from the Japanese that

1 they will open their markets; however, that language was  
2 put in there with their consent and they signed it. And it  
3 says that the Japanese will expeditiously -- that word is  
4 in there -- move to open their markets to petroleum products,  
5 and the international organization shall monitor it. The  
6 first report is due very shortly. This has caused a lot of  
7 heartburn, but we will be on a continual monitoring course  
8 for that. And that's the number one solution, is to start  
9 opening up that market to gasoline and kerosene.

10 And Clay and I are going to be talking on this,  
11 but the President is going to meet with Nakasone here  
12 shortly, and we've got a lot on the agenda. But the product  
13 import thing is big for this industry, and we cannot absorb  
14 all world products in this country for petroleum. That's  
15 what I would add.

16 AMBASSADOR YEUTTER: Yes. A very important point.  
17 And let me add one additional element to that too, and that  
18 really is a follow-up. And that is on the export side.  
19 Where there is so much concentration right now in this  
20 country on import protection and import sensitivity that we  
21 sometimes forget that we're a major exporter of a lot of  
22 things and it's not too far -- too many years back in which  
23 we were really doing exceptionally well exporting. If we  
24 get the right moves made in trade policy, and if we get a  
25 much more desirable exchange rate relationship established

1 not too far down the road -- and I really think that's  
2 possible -- we -- I hope that all of us out here in the  
3 private sector will begin to think a little more, once again,  
4 about our export opportunities. That alone provides some  
5 incentives in the area that you're talking about. And I  
6 don't think we should neglect that. In other words, don't  
7 lock up your export arms yet. There just might be some  
8 money to be made on the exporting side of this and everybody  
9 else's business where we're competitive in the years ahead.  
10 So, we'll try to see if we can help in that respect too.

11 QUESTION FROM ROBERT SWEENEY: It seems to me that  
12 the -- some of the domestic private- and public-sector debt  
13 minus domestic savings has to be, by definition, funded by  
14 foreigners.

15 AMBASSADOR YEUTTER: Yes.

16 ROBERT SWEENEY: And that amount is simply a mirror  
17 image of the trade deficit or at least current cap deficit  
18 which is mostly trade deficit. Okay. If you accept that,  
19 then it seems to me a weaker dollar, tariffs, quotas -- ,  
20 whatever -- do -- adds nothing to that equation. You've got  
21 to increase domestic savings or you've got to decrease the  
22 private-sector or the public-sector debt which, being in  
23 industry, I really would go to the deficit. So, it seems to  
24 me that you're whistling Dixie on any of those things you're  
25 talking about except the deficit or possibly increasing



1 savings.

2 AMBASSADOR YEUTTER: Well, you're -- you're  
3 absolutely right. We're financing a gigantic federal deficit  
4 by foreign investment inflows at the moment, and that has  
5 both its pros and its cons. And certainly if we make major  
6 macro-economic adjustments, those are going to reverberate  
7 through this whole system and are going to have a variety of  
8 effects, some of which will be helpful and some of which may  
9 not be so helpful.

10 Yes, I think that that leads me -- this can get to  
11 be a very complicated issue, of course -- that leads me to  
12 conclude one that ~~out~~<sup>our</sup> first priority in this nation is to get  
13 that federal budget deficit down. And that will cure a lot  
14 of ills in a whole variety of ways because it eases that  
15 burden out there of financing, which is now just astronomical.  
16 It's awesome. So, that really is the sine qua non of almost  
17 everything else that you're talking about.

18 And then, I think the point you just made on  
19 savings is a relevant one, too. Somehow we've got to do a  
20 better job of generating savings in this country. You can do  
21 a lot with that, of course, in tax policy, which gets into  
22 one of the earlier questions. But certainly we, the United  
23 States, play a dangerous game when we generate such a small  
24 amount of savings in this country as we do. Okay?

25 Yes, sir.

1 QUESTION FROM HENRY ZARROW: At one time the energy  
2 -- five percent of the energy was used by the steel industry.  
3 Today there is only one full-line steel mill left that manu-  
4 factures everything. I was wondering if this voluntary  
5 import of steel is working.

6 AMBASSADOR YEUTTER: Okay. The question was we  
7 used to sell a lot of energy to steel companies in the United  
8 States and that industry has had its problems in recent years.  
9 The question is, is the President's program in steel working.

10 I'll give you a simple answer and then a more com-  
11 plicated one without trying to take too much time because  
12 this is complex, too. My simple answer would be yes. I  
13 really believe it is working. We've -- we've got some pieces  
14 that have to be dealt with in the relatively near future,  
15 but if one assumes that we're going to handle those properly,  
16 I really believe the program will work -- will work quite  
17 well and is already working quite well with the exception of  
18 those -- those gaps.

19 Now, let me embellish that a bit. The President's  
20 steel program is intended to offset the competition of sub-  
21 sidized and dumped products around the world. It's not  
22 attempted to be -- not intended to be a program that would  
23 just simply restrain imports. In other words, it's not  
24 intended to be a protectionist program. It's intended to  
25 deal with the unfair traders, not with the fair traders. So,

1 it's not an all inclusive program. It's not aimed at every  
2 country in the world because countries -- or companies around  
3 the world in countries that were shipping steel in the United  
4 States on a fair trade basis -- that is, without the use of  
5 subsidies and dumping practices and so on -- can continue to  
6 do so. But we're trying to head off the unfair trade  
7 practices, and there are a lot of those in steel. And that  
8 was the intent of the program, and I really believe it's  
9 doing quite well.

10 The import penetration is higher than our domestic  
11 industry would like to have it be today, and that's under-  
12 standable, because there have been some substantial surges  
13 in the last year or two for a variety of reasons. Most of  
14 it related to steel coming in from the European Community,  
15 and that involves some categories that have not been covered  
16 in the initial agreement, and we had to bring those under  
17 coverage. It has involved also the need to now renegotiate  
18 the original agreement with the European Community and we're  
19 in the process of doing that now with an October 31 deadline.  
20 That's a major negotiation in this picture. And then, beyond  
21 that, we've had to negotiate arrangements with some companies  
22 that originally weren't significant players in steel, and  
23 have added unfair trade practices.

24 So, it has been complicated in terms of bringing  
25 that program to bear on all the unfair traders around the

1 world. But I really believe that, assuming a solid result in  
2 the EC negotiation over the next three weeks or so, that  
3 we'll have that program in a position where it's really going  
4 to do pretty well by the domestic steel industry. Okay?

5 Yes, sir.

6 QUESTION FROM BRUCE CALDER: I have a question for  
7 the Ambassador and one for the Secretary. And your question  
8 is, there is a great deal of fear in the industry that when  
9 the Saudi Arabians finally got their big refineries built  
10 that they would let us buy their crude at a much reduced  
11 price, and so, therefore, they could put out their product at  
12 a reduced price. And I've seen in the papers recently where  
13 they're maintaining that they are selling to their refineries  
14 at the same price that they're selling to other outside  
15 countries.

16 And my question to the Secretary is, where do we  
17 stand on the ~~Full~~<sup>Fuel</sup> Use Act (inaudible)?

18 AMBASSADOR YEUTTER: Well, on the first question,  
19 I really cannot give you an answer to that right now. We're  
20 working on that issue and all of these other so-called  
21 natural resources issues at the moment because the legisla-  
22 tion that's on Capitol Hill is stirring, and we need to be  
23 able to respond to that and will do so at the proper time.  
24 And beyond that, we simply need to confront the issues as  
25 your question surmises and to decide whether we have any

1 unfair trad practices out there in this area or others to  
2 which we should respond.

3           So, I don't have the answer to your question right  
4 now, but I can assure you that we will make that determina-  
5 tion in a timely way. If they are truly doing what they say  
6 they say, then they don't have anything to worry about because  
7 that should eliminate any charges or allegations of unfair  
8 trade practices. If on the other hand, they are not doing  
9 what they say they're doing, then it seems to me, it's a  
10 much tougher question. One can certainly make an argument  
11 that whether that's unfair or not, it's something that is  
12 troublesome, and how we should respond to that troublesome  
13 trade policy question is something that I'm not prepared to  
14 answer yet, as I indicated earlier. But I recognize fully  
15 that it's an issue that isn't going to go away and that we  
16 have a responsibility as an administration and as a govern-  
17 ment to confront and try to confront it well.

18           So, as John comes up to answer the last question,  
19 let me say I'm sorry that we couldn't go on and do more and  
20 more, but I've got to go do a whole lot of other things. And  
21 I know you have many things on your agenda as well. But let  
22 me say to you that we'd be glad to hear from you. I know  
23 your primary responsibility is to John Herrington, and that's  
24 fine. And I'm sure he appreciates all your good help. But if  
25 you have any direct input for us at USTR as we try to

1 represent you and this country on trade issues, we'd  
2 obviously be delighted to have it at any time. Just fire it  
3 in, and we'll try to do the best job we can of representing  
4 your interests and your views. We're on your team. We're  
5 working for you, and so, let us try to help you as best we  
6 can.

7 Thanks very much.

8 (Applause)

9 SECRETARY HERRINGTON: It took a long time, but he  
10 finally said it. He's on our team.

11 (Laughter)

12 SECRETARY HERRINGTON: And he can be a very valu-  
13 able member of that team, and I hope you appreciate the  
14 tough job he's got these days with this trade thing. But he  
15 can be a very strong influence for us working in the energy  
16 area, and I'd like him to understand the problems. So, don't  
17 feel that you need to work with just the Energy Department in  
18 this government. The trade area is one that we need to work  
19 with strongly, especially in the product import area. The  
20 Fuel Use Act -- it's pretty clear, I think based on state-  
21 ments the Administration has made in the last few months and  
22 before that we favor deregulation of natural gas at a date  
23 certain. We also want to include in that a repeal of the  
24 Fuel Use Act.

25 And our primary concern, I think -- or one of the

1 primary concerns is that producers are able to get their  
2 product to market. Some of that FERC decision solves some of  
3 those problems. I think they're going to be very beneficial.  
4 Some of them are in abeyance. Obviously, the block billing  
5 part. Whether we take the next step and decouple the Fuel  
6 Use Act from gas regulation, I think, is open at this point.  
7 The people are more and more convinced, I believe, that maybe  
8 we'd take what you can get at the time you can get it, and  
9 maybe we'd bifurcate these two. I think there is no erosion  
10 in desire to eliminate the Fuel Use Act anywhere in the  
11 government that I've discovered.

12           Thank you very much for letting me speak to you  
13 today, and I appreciate it very much. I consider this  
14 Council a big help to me in my job. We are, as I said again,  
15 concerned about your problems. When you say the industry is  
16 sick, I'm aware of the problems you're going through. I hope  
17 that we can be part of the solution to some of the problems  
18 you're in. And we're going to keep trying. As you can tell,  
19 they're very complex. You know they're complex. Some fine  
20 lines have to be walked here, and a lot of cooperation with  
21 Congress. And I look forward to working with all of you in  
22 the next few years. Thanks.

23           (Applause)

24           CHAIRMAN BAILEY: Well, Mr. Secretary, I think that  
25 the Council certainly recognizes the very difficult and, yet,

1 very vital task that both you and Ambassador Yeutter have in  
2 front of you not only developing, but also in implementing  
3 the nation's policy both on trade and on energy. And cer-  
4 tainly this Council is ready, willing, and able to offer its  
5 counsel and its support, its help, and we very much appreci-  
6 ate your taking the time to come here this afternoon and  
7 arranging for the Ambassador to be here, and giving us the  
8 time and our industry that you do. Thank you very much.

9 SECRETARY HERRINGTON: Thank you.

10 (Applause)

11 CHAIRMAN BAILEY: Well, as you know, the Council  
12 does have underway a most important effort on U.S. petroleum  
13 refining. John McKinley, who chairs that Committee, was  
14 unable to be with us here today, and in this absence, Jim  
15 Seamans, who is Chairman of the Coordinating Subcommittee,  
16 will now present a report on the progress of the work and its  
17 schedule for completion. Mr. Seamans.

18 MR. SEAMANS: Thank you, Mr. Chairman. Is this  
19 mike working?

20 Ladies and gentlemen, I think as you all recall,  
21 the National Petroleum Council's study on the petroleum  
22 refining industry was initiated by the request of the  
23 Secretary of Energy, who asked that the Council examine the  
24 factors affecting the domestic refining industry through the  
25 years 1985 to 1990. More specifically, that study was to be



1 an update of previous Council studies and was to establish  
2 the ability of the industry to meet the demands as then  
3 projected in the future. And it will, in fact, examine the  
4 industry's ability to meet these demands over a wide range of  
5 crude oil availabilities and product supply/demand scenarios.

6 In addition to that, the study is currently under-  
7 way to look at some of the outside factors, both from a  
8 market standpoint and a regulatory standpoint, not the least  
9 of which are the relative economics of the refineries within  
10 the regional boundaries of the U.S., product imports, gasoline  
11 lead restrictions, taxation, and other specific environmental  
12 constraints.

13 In order to accomplish the study, there was an  
14 organization developed which consists of a Committee on the  
15 U.S. Petroleum Refining Industry, that which is chaired by  
16 Mr. McKinley, a Coordinating Subcommittee, and four technical  
17 Task Groups. The Committee, aided by the Subcommittee's work  
18 and the coordinating work of the other groups, is addressing  
19 the study's broader policy questions.

20 This afternoon I'd like to brief you on the  
21 progress of the study thus far and give you the prospects for  
22 the remainder of the study to completion. Since the begin-  
23 ning of this work in late 1984, there has, indeed, been a  
24 significant amount of progress made, specifically in the  
25 areas of supply/demand balance development, data collection,

1 review and aggregation of these data, and computer model  
2 development to answer the questions which have been asked.

3 (Continued on next page.)  
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1 The study's working groups have maintained a very intensive  
2 schedule, and a number of major phases of the study have been  
3 completed. I must confess that we did, indeed, run into some  
4 difficulties in connection with the collection and  
5 aggregation of the data, which have, in fact put the study  
6 behind our original timetable. I'll discuss that with you  
7 just a little more in just a moment. But I think the best  
8 way, perhaps, to describe the progress would be to tell you  
9 the status of each of these task force groups.

10 The Oil Supply/Demand Task Group has developed  
11 supply/demand balances covering the United States and the  
12 rest of the free world, which will be used as a basis for  
13 our analysis. We've established what we consider to be  
14 high and low demand cases, and these were developed for 10  
15 domestic and 28 foreign-demand regions. We're covering a  
16 period from 1985 through 1995. We've actually developed a  
17 high and low case because this represents the Task Group's  
18 best opinion of the likely cases against which the domestic  
19 refining system should be tested. They do, indeed, represent  
20 a certain amount of uncertainty, as it relates to supply  
21 and demand, but I assure you they are not unreasonably high  
22 or unreasonably low. They actually represent what ~~is~~ <sup>these</sup>  
23 is in our best judgment the most likely conditions  
24 that we can anticipate. Mechanically, ~~those~~  
25 cases were generated using the Energy

1 Information ~~Administrative~~ model, and that model was adjusted  
2 by the judgment of the task force groups.

3       The Refinery Survey Task Group has developed and  
4 distributed a comprehensive questionnaire to all petroleum  
5 refiners in the U.S., and all of you, I think, have seen  
6 that, but that requested data on the current and projected  
7 capabilities of the refineries and their forecast operations.  
8 The accounting firm of Arthur Young was used to aggregate  
9 and collect these responses so that all individual responses  
10 would be protected against public release. Although the  
11 response to this was very positive, we did, as I mention,  
12 run into significant delays in receipt of the data, and as  
13 a result, we extended the deadline for receipt by a little  
14 over two months. We felt that in order to get an absolutely  
15 accurate and the maximum amount of data available, which is  
16 the very backbone of our study, that this delay was warranted.  
17 We think, in fact, that's exactly the result we got, because  
18 in the last week alone there were over a million barrels of  
19 refining capacity reported, which we otherwise would not have  
20 captured.

21       We also ran into some delays in connection with  
22 aggregation of the data by the accounting firm. I'm happy  
23 to say that these delays and these problems have now been  
24 corrected, and that all of these data have now been trans-  
25 mitted to the U.S. Refinery Capability Task Group, who is

1 now inserting these into our model for further development  
2 and validation.

3 As I noted, the response to the survey was just  
4 nothing short of magnificent. Over 95 percent of all of  
5 the crude distillation capacity in the United States reported,  
6 and of the questionnaires sent to all operable refineries,  
7 181 refineries responded, and that represented 15.3 million  
8 barrels of calendar day of crude capacity in the U.S. And  
9 we on the Committee, and of course the Task Groups, would  
10 like to express our appreciation to all of you who responded  
11 so well. And I think this is going to make an excellent  
12 study, one that we all can be proud of. It was a lot of  
13 information requested, and even though it was late, you  
14 all responded extremely well and gave us exactly what we  
15 needed.

16 The analysis of the configuration and capacity of  
17 the domestic refining systems are now being conducted by the  
18 U.S. Refinery Capabilities Task Group. The Task Group has  
19 actually received 1984 and projected 1988 capacity, and the  
20 utilization from the Survey Task Group. These data are  
21 being used to validate and calibrate 12 refinery models that  
22 have been segregated to represent the refining industry,  
23 both from a standpoint of location and complexity. These  
24 models are being adjusted to accurately reflect the projected  
25 data, so that each of the industry's capabilities can be

1 modeled through 1988 under each of the two supply/demand  
2 cases.

3 We are also, then, setting up sensitivity cases  
4 in which these will be evaluated against varying crude  
5 qualities, varying octane requirements, vapor pressure  
6 specification changes on gasoline, and of course, one of  
7 the big ones, the use of ~~oxygenates~~ <sup>oxygenates</sup> down the road.

8 In addition, the analysis will address the compara-  
9 tive economics of the domestic refining system with an  
10 objective to answer the question which was asked regarding  
11 the role of, quote, regional refiners. We have contracted  
12 Turner, Mason and Company to perform the modeling work under  
13 the guidance of the study participants, and we're currently  
14 involved in the model validation phase of that work.

15 The Worldwide Refining Trends Task Group is  
16 analyzing the refinery capability of all of the regions of  
17 the world outside the United States and the potential for  
18 product exports from those regions. The Task Group is  
19 utilizing data and the Department of Energy's PAL model, as  
20 they call it, the Petroleum Allocation Model, to assess  
21 local demands, indigenous supply, the refinery capability and  
22 utilization of these 28 worldwide regions, which I described  
23 earlier.

24 The group has made significant changes to the PAL  
25 model, which reflects the judgment of those who are on the

1 group, and we're happy to say, too, that when we leave this  
2 study, the government will have what we consider to be  
3 probably the latest thing in this line of work for their  
4 continued use down the road. The modeling affect will depict  
5 the world's refining supply capabilities for comparison with  
6 the U.S. refining systems as generated by our Capability  
7 Task Group. This comparison will be done on the basis of  
8 the marginal costs of the two systems for the two supply-  
9 demand cases I've earlier described.

10 In addition to this work, the Coordinating Sub-  
11 committee will address the broader policy issues associated  
12 with potential impacts on the domestic refining system.  
13 Currently, the Subcommittee is analyzing changes in the  
14 Superfund requirements, overall levels of taxation, and  
15 some specific Los Angeles Basin environmental controls.

16 As I have noted, the analysis will focus on the  
17 industry's refining capability under these two demand  
18 scenarios -- a high case and a low case. Again, this method-  
19 ology reflects the judgment of those involved in the study  
20 and also reflects the judgment of those in the study such  
21 that we cannot forecast precisely what the demand will be.  
22 And if any of you who have been in past studies of this kind  
23 have tried to pinpoint something, you know how futile that is.  
24 On the other hand, what we're attempting to do, which we  
25 think will satisfy all of the needs of the study, is rather

1 than develop a single-point case, which would most likely be  
2 proved wrong, we feel that the analysis is better served by  
3 a high and low demand case, again, not as extreme points,  
4 but as a reasonable range of operating conditions. While  
5 this may not answer specific questions, the methodology will  
6 certainly generate the data from which specific conclusions  
7 can be drawn as the future events change.

8 One point we want to make clear. The study will  
9 not express final judgments on national security issues  
10 raised by increased levels of imported products and/or the  
11 combination of shutdown of additional or significant U.S.  
12 refining capacity. The study will, however, include important  
13 data relevant to such national security judgments which  
14 should be helpful to any policymakers who are responsible  
15 for these matters. Specifically, the study should enable  
16 policymakers to address the physical impact of future levels  
17 of product imports on different segments of the U.S. refining  
18 industry at varying levels of product demand. An analysis  
19 of the marginal cost of both domestic and foreign products,  
20 potential import volumes and the mix of products will be  
21 generated for each supply/demand case. Other factors that  
22 affect product import levels will also be considered,  
23 including trade policies and practices of the U.S., as well  
24 as other importing nations, together with applicable non-  
25 market factors in both producing and refining countries.



1 To determine the minimum level of refining capacity to  
2 adequately protect the U.S. in a major supply disruption, or  
3 to establish the minimum amount of domestic refining capacity  
4 required to support a future major military mobilization,  
5 would involve expertise and analysis well beyond the scope  
6 of what we're currently doing in this study.

7 As is often the case in projects of this nature,  
8 delays in the data collection, which I've described and  
9 reviewed have been necessary, but we've done those in the  
10 sense that we want to insure a high level of confidence in  
11 the data being used, and these, indeed, have caused the study  
12 to be behind schedule. At the last Council meeting, Mr.  
13 McKinley reported to you that we expected to complete our  
14 work this fall. With the delays I've described in the  
15 modeling, the integration, and the analysis work, now going  
16 on for at least another two months, the Subcommittee now  
17 projects that we will begin drafting our final report in  
18 December for submittal to the Committee early next year.  
19 I anticipate that a final report will be submitted for the  
20 Council's review by the spring NPC meeting.

21 In closing, I want to thank the Council membership  
22 and the Department of Energy for their generous support in  
23 this effort, and I cannot tell you how pleased I am with the  
24 quality and numbers of people that have been supplied. I  
25 honestly think that nowhere else, in my opinion or my

1 experience, have this many people with such expertise been  
2 put on a study of this nature. And we appreciate it and  
3 I think it's going to reflect in a final report that will  
4 be most valuable to the government and to the industry.  
5 And that concludes my update, Mr. Chairman.

6 CHAIRMAN BAILEY: Well, Jim, thank you. Inasmuch  
7 as this is a progress report, there will be no action by  
8 the Council, but I'm sure that Jim would invite any questions  
9 or comments that any of you might have as they now enter the  
10 final phase of this work.

11 Are there any questions?

12 (No response)

13 CHAIRMAN BAILEY: Thank you very much.

14 MR. SEAMANS: You bet. Thank you.

15 CHAIRMAN BAILEY: Fine report.

16 (Applause)

17 CHAIRMAN BAILEY: The Agenda Committee met this  
18 morning and A.V. Jones, Chairman, will present the Committee's  
19 report. Mr. Jones.

20 MR. JONES: Thank you, Mr. Chairman.

21 Earlier in the fall Secretary Herrington requested  
22 the National Petroleum Council's advice and recommendations  
23 on factors affecting the U.S. oil and gas outlook. A copy of  
24 this requested letter, dated September the 23rd, 1985, is  
25 attached to the Agenda Committee discussion packet in each

1 Council member's information packet this afternoon.  
2 Additional copies of this request will be made available  
3 after the meeting.

4 The -- specifically the Secretary requests the  
5 Council to address the following issues: factors affecting  
6 future U.S. oil and gas supply and demand; factors that  
7 precipitated the energy crisis of the 1970's; the financial  
8 impact of the crisis on the national's economy and the  
9 appropriateness of the government's response and the  
10 potential for reoccurrence; and how the ~~vulnerability~~ <sup>vulnerability</sup> to  
11 future crisis can be avoided or mitigated.

12 Pursuant to the Section 7-1 of the Articles of  
13 Organization of the Council, this request was referred  
14 to the Agenda Committee for consideration as to whether  
15 the request is proper and advisable for the Council to  
16 undertake.

17 In considering this request the Committee made  
18 the following observations: the Council has addressed  
19 the outlook for oil and gas comprehensively or in part in  
20 numerous previous studies. The proposed study could be  
21 useful in combating public complacency resulting from  
22 the present energy situation by raising the government  
23 and the public's awareness of the potential situation  
24 the nation may face in the future.

25 Additionally, the Council is well qualified

1 to provide the Secretary with the advice on what actions  
2 could be taken in the areas such as taxation, land access,  
3 et cetera, to improve the U.S. outlook for oil and gas.

4 And finally, the Committee believes that such a  
5 study would not require the generation of new, grass-  
6 work forecast of supply and demand.

7 Accordingly, Mr. Chairman, the Agenda Committee  
8 finds this request proper and advisable for the Council's  
9 recommendation and recommends that the Council agree to  
10 undertake a study of the factors affecting U.S. oil and gas  
11 outlook.

12 This completes our report of the Agenda Committee,  
13 and I move its adoption by the membership of the National  
14 Petroleum Council.

15 VOICE: I second.

16 CHAIRMAN BAILEY: Is there any question? We have  
17 a motion and a second.

18 (No response)

19 CHAIRMAN BAILEY: Any discussion?

20 Bob West?

21 DR. WEST: Ralph, I would hope that if this study  
22 is undertaken that the Council wouldn't duck some of the  
23 sticky and kind of delicate and politically related issues  
24 such as taxation which we talked about a little earlier.  
25 And just come out with a bunch of statistical mishmash,

1 if I may say that. I think that the key elements are,  
2 you know, political elements. If this industry is going  
3 to survive, I think the federal government is really  
4 going to have to recognize that and not just play lip service  
5 to the concept. It's still amazing to me that in Treasury  
6 I when Donald Regan was Secretary of Treasury, this doing  
7 away with IDC's came in there, the same Administration  
8 that's in power right now, not all of us, but most of us  
9 here are Republicans, I guess. It's unbelievable to me  
10 that we've gotten into the shape we've gotten in this  
11 tax thing. And we just kind of duck it and don't talk about  
12 it. If we're going to do this survey, I think we ought  
13 to really focus in on what the real issues are.

14 CHAIRMAN BAILEY: Well, Bob, in that regard the  
15 Agenda Committee spent some time discussing this morning  
16 what the content just might embrace.

17 And I wouldn't want to prejudge what the  
18 Committee that ultimately will be selected to conduct the  
19 study, might suggest to do it.

20 But we did feel that, just as you suggest, that  
21 perhaps to look back 15 years and then look ahead 15 years,  
22 might be the most meaningful way to go at it, because  
23 there certainly are public policy issues that impact  
24 very heavily on petroleum supplies.

25

1           And I agree with you, I don't think that a good  
2 comprehensive study can duck those issues. Just how we  
3 present them, I think will be a matter for the Committee  
4 ultimately to decide. But you can't really, I think,  
5 answer the questions that the Secretary has posed, and  
6 they are very important questions. And I wholeheartedly  
7 agree with him that the complacency at hand in the nation  
8 today is very worrisome.

9           And I'm delighted that the Agenda Committee  
10 feels that it is appropriate to again take another look.  
11 It has been 13 years or so since it's been done. It's  
12 not the intention here to reinvent the wheel by going,  
13 as A.V. has said, to go back through some of the very  
14 fundamental studies that had to be pulled together back  
15 when the last study was done.

16           We have -- it's a different world today then it  
17 was in 1972. And, I think that a look back and a look  
18 ahead together, will reveal some things to us that will  
19 be very important as it relates to the development of  
20 policy which is what the study is supposed to provide.

21           Are there any other questions or discussion?

22           (No response)

23           CHAIRMAN BAILEY: All those in favor?

24           (A chorus of ayes.)

25           CHAIRMAN BAILEY: Opposed?

(No response)

CHAIRMAN BAILEY: Motion adopted.

The Finance Committee has reviewed the Council's operating budget for 1985 and the requirements for 1986; and John Hall will now present his Committee's report.

MR. HALL: Mr. Chairman, members of the Council, the Finance Committee met earlier this afternoon to review the financial status of the Council.

We reviewed expenditures and receipts for the first nine months for the Calendar Year 1985 and looked at projections for the remainder of the year.

I am pleased to report that the financial position of the Council is sound.

We discussed a budget for 1986, Calendar Year 1986, and we are recommending the budget in the amount of \$1,830,000.00 for your approval.

This budget will include funds to complete the ongoing U.S. Petroleum Refining study that Jim Seamans reported on. And will also provide additional funds to complete the new study that A.V. Jones just presented for your approval.

Next, we discussed contributions for the year beginning July 1, 1986. We want to bear in mind that all of us are trying to economize and cut back, and keep expenditures down. Against that, the income to the

1 Council is being impacted by the restructuring of the  
2 industry; mergers, royalty trusts, other new financial  
3 restructuring is reducing the amount of money that's  
4 available to the Council.

5 The final decision for total member contributions  
6 will not be made until the spring meeting. However, as  
7 I reported to you at our last meeting, we'll be sending  
8 out next spring a new survey of the membership to update  
9 the Council's data on which member suggested contributions  
10 are based. Your prompt response to the survey will be  
11 appreciated.

12 Thank you, Mr. Chairman, and I move this report  
13 of the Finance Committee be adopted by the Council.

14 CHAIRMAN BAILEY: Is there a second?

15 VOICE: I second it.

16 CHAIRMAN BAILEY: Any discussion?

17 (No response)

18 CHAIRMAN BAILEY: All those in favor say aye?

19 (A chorus of ayes.)

20 CHAIRMAN BAILEY: Opposed?

21 (No response)

22 CHAIRMAN BAILEY: Motion adopted.

23 As you know Harold Hoopman has retired this  
24 summer from Marathon and U.S. Steel. Harold was a Council  
25 member for 10 years, and served as Chairman of the



1 Appointment Committee. And as provided in the NPC Articles  
2 of Organization I have by interim appointment asked Ted  
3 Burtis to take over as Chairman of the Committee.

4 And I know that all of you will join me in  
5 thanking Harold and for his service; and also, Ted, for  
6 agreeing to step in.

7 Well, ladies and gentlemen, this brings us to  
8 the end of our formal agenda for the afternoon.

9 Does any Council member have any other matter  
10 to raise at this time?

11 Yes, sir.

12 Would you state your name, please, for the record?

13 MR. CALDER: Bruce Calder. The format of this  
14 meeting is different than the format of previous meetings.  
15 And I'm just suggesting that possibly the administration  
16 of the Council send out questionnaires to the members  
17 to see if this is a more satisfactory form then what  
18 we've had in the past; and perhaps get the sentiment of  
19 the entire membership.

20 CHAIRMAN BAILEY: Thank you. Marshall, I think  
21 that's a good suggestion. We will do that.

22 Any other questions or comments or issues from  
23 the Council members?

24 (No response)

25 CHAIRMAN BAILEY: How about from the non-Council

1 members; do you have anything you wish to bring up?

2 (No response)

3 CHAIRMAN BAILEY: Then, do I have a motion for  
4 adjournment?

5 VOICE: I make the motion to adjourn.

6 CHAIRMAN BAILEY: Is there a second?

7 VOICE: I second it.

8 CHAIRMAN BAILEY: All in favor?

9 (A chorus of ayes.)

10 CHAIRMAN BAILEY: Then the 90th meeting of  
11 the NPC is adjourned.

12 (Whereupon, at 4:00 p.m. the meeting was  
13 adjourned.)

C E R T I F I C A T E

This is to certify that the attached proceedings  
before the Department of Energy  
(Name of Agency)

in the matter of: National Petroleum Council

Docket Number: 98

Place: Washington, D.C.

Date: 11:11 October 15, 1985

were held as herein appears, and this is the original transcript  
thereof for the file of the Department or Commission.

L. J. Long  
S K S GROUP, LTD.  
Official Reporter

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